

**EXECUTIVE SECRETARIAT****ROUTING SLIP**

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		ACTION	INFO	DATE	INITIAL
1	DCI				
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4	D/ICS				
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6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/OCA				
14	D/PAO				
15	D/PERS				
16	D/Ex Staff				
17	D/Finance		(X)		
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SUSPENSE \_\_\_\_\_  
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Remarks

STAT

*Q* Executive Secretary  
3 Nov '87  
Date

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503  
October 26, 1987

Executive Registry
87-3524X



M-88-01

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Joseph R. Wright, Jr.  
Deputy Director and Chairman  
President's Council on Integrity and Efficiency

SUBJECT: Improved Implementation of the Prompt Payment Act  
and Request for 1987 Report

This memorandum provides guidance and instructions on achieving needed improvements in agency implementation of the Prompt Payment Act. The Prompt Payment Act has been in effect for five years and in that time agencies have made good progress. Nevertheless, much remains to be done.

There is some concern that agencies may not be implementing the Act in a totally effective manner and that the data reported to OMB, and included in the annual report to Congress, may not be accurate. The President's Council on Integrity and Efficiency (PCIE) is completing a study of agency implementation of the Prompt Payment Act and validity of data reported to OMB. Informal discussions with the PCIE, along with an earlier GAO report, indicate that there is a lack of understanding of the requirements of the Act and OMB Circular A-125.

Congressional concern about agency implementation of the Prompt Payment Act has resulted in unanimous passage by the Senate of S. 328, the Prompt Payment Act Amendments of 1987. This Administration supports the proposed legislation except for a few provisions and is particularly interested in phasing out the 15 day grace period by the end of FY 1989. The June 9, 1987, revisions to OMB Circular A-125, Prompt Payment, incorporated those provisions of the pending legislation which could be adopted administratively.

There is also intense interest in the vendor community in the implementation of the Prompt Payment Act. Congressional hearings are replete with horror stories about extraordinarily long waits for payment which create hardships, especially among small businesses. OMB receives a large number of calls and letters from distressed vendors who believe that the payment process has failed and that they have no other recourse if their bills are to be paid.

DD/A REGISTRY

FILE: 60-7

The first priority should be to ensure the validity of agency reporting to OMB to support an accurate annual report to Congress -- even if this means reporting a lower level of compliance than in prior years. The 1987 reporting requirements, at Attachment A, are similar to those issued last year; questions on interest penalties due but not paid and on discounts taken have been added. The most important change is the certification of accuracy by the agency head. This is included to ensure that top agency management is involved in validating data in the report and is aware of any deficiencies reported. These reports are due to OMB November 30, 1987.

Agencies also need to move quickly to correct performance problems and to prepare to implement proposed changes to the Act. Such changes will likely require improvements in the systems which support the payment of vendors; agencies should review these systems to ensure that they take advantage of the most cost effective modern technology.

By January 29, 1988, agencies listed in Attachment B must submit to OMB a plan to accomplish the following objectives:

- o Correct deficiencies in payment practices identified by your Inspector General, by GAO, or through management reviews;
- o Correct problems in reporting accurately to OMB;
- o Phase out the 15-day grace period; and
- o Routinely respond to vendor inquiries and complaints.

Both the annual reports and the corrective action plans should be sent to:

Financial Management Division  
Office of Management and Budget  
Room 10225  
New Executive Office Building  
Washington, D.C. 20503

If there are questions, your staff should contact Suzanne Duval at (202) 395-6107.

With your help, the remaining problems with implementation of the Prompt Payment Act can be resolved.

Attachments (2)

## Attachment A

Department/Agency

## PROMPT PAYMENT REPORT

October 1, 1986 -- September 30, 1987

	<u>FY 1987</u>	<u>Reported FY 86</u>
<b>I. <u>Payments subject to the Prompt Payment Act and OMB Circular A-125:</u></b>		
A. Dollar amount	\$ _____	\$ _____
B. Number	_____	_____
<b>II. <u>Payments made more than 15 days after due date:</u></b>		
A. Dollar amount	\$ _____	\$ _____
B. Number	_____	_____
<b>C. Interest penalties paid:</b>		
1. Dollar amount	\$ _____	\$ _____
2. Number	_____	_____
3. Relative frequency (II.C.2. ÷ I.B.)	_____ %	_____ %
4. Reasons why interest penalties were incurred. Rank according to frequency of occurrence.		
a. Delay in paying office's receipt of:		
- receiving report	( )	( )
- proper invoice	( )	( )
- purchase order or contract	( )	( )

- 2 -

	<u>FY 1987</u>	<u>Reported FY 86</u>
<b>b. Delay or error by paying office in:</b>		
- taking discount	( )	( )
- notifying vendor of defective invoice	( )	( )
- computer or other system processing	( )	( )
 <b>D. Interest penalties which were due but not paid:</b>		
<b>1. Total:</b>		
a. Dollar amount	\$ _____	
b. Number	_____	
 <b>2. Because amount less than \$1.00:</b>		
a. Dollar amount	\$ _____	
b. Number	_____	
 <b>3. For other reason:</b>		
a. Dollar amount	\$ _____	
b. Number	_____	
c. Specify reasons:	_____ _____ _____ _____	

- 3 -

	<u>FY 1987</u>	<u>Reported FY 86</u>
<b>III. <u>Payments made 1-15 Days After Due Date (During Grace Period):</u></b>		
A. Dollar Amount (Total):	\$ _____	\$ _____
1. 1-7 days	(\$ _____)	(\$ _____)
2. 8-15 days	(\$ _____)	(\$ _____)
B. Number (Total):	_____	_____
1. 1-7 days	( _____ )	( _____ )
2. 8-15 days	( _____ )	( _____ )
C. Relative frequency (Total) (III.B. ÷ I.B.)	_____ %	_____ %
1. 1-7 days (III.B.1. ÷ I.B.)	( _____ % )	( _____ % )
2. 8-15 days (III.B.2. ÷ I.B.)	( _____ % )	( _____ % )
<b>IV. <u>Payments made 3 days or more before due date, except where cash discounts taken:</u></b>		
A. Dollar amount	\$ _____	\$ _____
B. Number	_____	_____
C. Relative frequency (IV.B. ÷ I.B.)	_____ %	_____ %

- 4 -

V. Discounts:

- A. Number available \_\_\_\_\_
- B. Number taken \_\_\_\_\_
- C. Reasons for failing to take discounts, in order of importance:
1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

VI. On a separate sheet, please provide for each payment center:

- A. Number of payments subject to the Act and the Circular.
- B. Number and dollar amount of interest penalties paid.

VII. Progress made:

On a separate sheet, describe specific achievements and problems during FY 1987 in implementing the provisions of the Prompt Payment Act and OMB Circular A-125.

VIII. Certification:

I certify that the data reported on this form are as accurate as possible:

\_\_\_\_\_  
Signature of agency head

**Attachment B**

**Executive Agencies Required to Submit Plans to Correct  
Deficiencies in Implementing the Prompt Payment Act**

Department of Agriculture  
Department of Commerce  
Department of Defense  
Department of Education  
Department of Energy  
Department of Health and Human Services  
Department of Housing and Urban Development  
Department of the Interior  
Department of Justice  
Department of Labor  
Department of State  
Department of Transportation  
Department of the Treasury  
Environmental Protection Agency  
General Services Administration  
National Aeronautics and Space Administration  
Office of Personnel Management  
Small Business Administration  
Veterans Administration  
United States Information Agency  
Agency for International Development